

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

APPLICATION FOR RATE ADJUSTMENT)
BEFORE THE PUBLIC SERVICE)
COMMISSION OF KENTUCKY FOR SMALL) CASE NO. 9465
UTILITIES PURSUANT TO 807 KAR)
5:076 OF BULLITT UTILITIES D/B/A)
HUNTERS HOLLOW SEWER SYSTEM)

O R D E R

IT IS ORDERED that:

1. The Staff Audit Report for Bullitt Utilities d/b/a Hunters Hollow Sewer System ("Bullitt Utilities") attached hereto as Appendix A shall be included as a part of the record in this proceeding.
2. Bullitt Utilities shall have 10 days from the date of this Order to file written comments concerning the contents of Appendix A.

Done at Frankfort, Kentucky, this 24th day of February, 1986.

PUBLIC SERVICE COMMISSION

Richard D. Herman
For the Commission

ATTEST:

Secretary

Staff Audit Report on
Bullitt Utilities, Inc. d/b/a
Hunters Hollow Sewer System

PREFACE

On November 19, 1985, Bullitt Utilities, Inc., d/b/a Hunters Hollow Sewer System ("Hunters Hollow") filed its application seeking an increase in its rates for sewer service. The proposed rates would generate \$42,112 on an annual basis, an average increase of 178 percent in the residential rates currently being charged. The increase would be substantially less to some customers and substantially more to others.

As part of its endeavor to shorten and simplify the regulatory process for small utilities the Commission chose to perform a limited financial audit of Hunters Hollow's operations for the test year, calendar year 1984. The Commission's objective was to substantially reduce the need for written data requests, decrease the time necessary to examine the application and, therefore, decrease the expense to the utility. Mr. Larry Harley and Mr. Sam Bryant of the Commission's Division of Rates and Tariffs performed the audit on January 23, 1986, at the offices of Mr. Carroll Cogan in Louisville, Kentucky.

This filing was made on the basis of the combined Hunters Hollow and Bluelick Sewer Corp. ("Bluelick") systems as currently before this Commission in Case No. 9367.

SCOPE

The scope of the audit was limited to obtaining information to determine whether the operating expenses as reported in Hunters Hollow's 1984 Annual Report used as the test year in this case

were representative of normal operations and to gather information to evaluate pro forma adjustments made in Hunters Hollow's filing. Expenditures charged to test year operations were reviewed as were the invoices. Insignificant or immaterial discrepancies were not pursued and are not addressed herein.

FINDINGS

General Observation

Bullitt Utilities, Inc. is comprised of the two separate sewer treatment plants, Bullitt Hills and Hunters Hollow. Examination of the balance sheet revealed that the operations of both plants are combined into one balance sheet for reporting purposes. Upon examination of the ledger, balance sheet items for each entity could be readily identified with few exceptions (ie., cash and retained earning). The Staff advises that all accounts be separated for future Annual Reports.

Most of the expenses incurred by Hunters Hollow during the test period were booked as accounts payable to Andriot-Davidson's Service Company, Inc. ("Andriot-Davidson"). Except for electric and water expenses it appeared that very little cash was expended for operation and maintenance of the plant.

During an exit conference with Mr. Cogan and his accountant Mr. Pat Logsdon, CPA, it was determined that the Hunters Hollow plant has the capacity to treat flow from 600 units. At present the plant has 183 connections thus operating at only 30.5% capacity.

Mr. Chris Glanz, the former owner of Blue Lick was available to answer any questions from the staff. Mr. Glanz advised the staff that no records existed from his operation of Blue Lick.

Fuel and Power Expense

Upon examination of Hunters Hollow's test-year expenditures it was revealed that the electric expense for pumping was overstated by \$1,494 due to a balance from the December, 1983 bill being carried forward onto the January, 1984 bill. This amount is not a proper test-year expenditure and, therefore, Account No. 703, Fuel and Power Purchased for Pumping and Treatment should be reduced by \$1,494.

In its filing Hunters Hollow proposed an adjustment to electric power expense in the amount of \$3,542. This adjustment was based on an estimated 15 percent increase in power required to run the blowers and pumps at the treatment plant due to the increased load from Blue Lick customers. This adjustment amounted to \$1,610. An additional \$1,932 in electric expense has been proposed by Hunters Hollow due to the addition of the Blue Lick lift station.

During the audit Commission staff examined electric bills for the calendar year 1985, the first full year that Hunters Hollow and Blue Lick were combined, and determined Hunters Hollow's electric expense for 1985 to be \$12,115.

Miscellaneous General Expenses

Hunters Hollow reported Miscellaneous General Expenses (Account No. 930) of \$2,025 for the test-year. Included in this amount are late charges to Andriot-Davidson in the amount of \$1,904. These charges are assessed monthly at 18 percent per annum on unpaid balances for services performed by Andriot-Davidson. As previously mentioned most of the Operation and Maintenance expenses incurred by Hunters Hollow were booked as accounts payable to Andriot-Davidson. The Staff finds this to be inappropriate for future operations.

Maintenance of Treatment and Disposal Plant

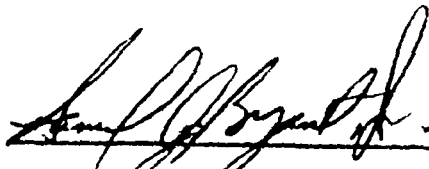
Hunters Hollow reported \$3,889 for maintenance of the treatment plant in 1984 and \$1,873 for plant maintenance in 1983. Examination of invoices for 1985 revealed expenditures of approximately \$2,700. The staff, therefore, concludes that treatment plant maintenance expense for the test period is not representative of normal operations.

Sludge Hauling

Hunters Hollow reported sludge hauling expense of \$2,390 for 1984. Examination of invoices confirmed this expenditure. Hunters Hollow incurred no sludge hauling expenses for the two years prior to the test year and an examination of invoices showed that \$160 was incurred for sludge hauling expense in 1985. The

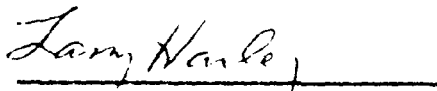
staff, therefore, concludes that test period sludge hauling expense is not representative of normal operations.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Samuel J. Bryant, Jr.", written over a horizontal line.

Samuel J. Bryant, Jr.

Financial Analyst Sr.

A handwritten signature in cursive script, appearing to read "Larry Harley", written over a horizontal line.

Larry Harley

Rates and Tariffs Manager